EXECUTIVE SUMMARY

CERTIFICATE OF NEED EVALUATIONS
Regional Hospital for Respiratory and Complex Care
and
THC-Seattle, Inc.

INTRODUCTION

Regional Hospital for Respiratory and Complex Care

This project is subject to Certificate of Need review as the increase in the number of acute care beds at an existing acute care hospital under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

THC-Seattle, Inc.

This project is subject to Certificate of Need review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

PROJECT DESCRIPTIONS

Regional Hospital for Respiratory and Complex Care

Regional Hospital for Respiratory and Complex Care (Regional) is a non-profit hospital located at 12844 Military Road South in the city of Tukwila, within King County. Currently, Regional is licensed for 27 acute care beds used solely for long-term acute care patients. This project proposes to add a total of 33 acute care beds for a facility total of 60. The 33 beds would be added in two phases; phase one is the addition of 8 beds, for a total of 35; and phase two is the addition of the remaining 25 beds, for a facility total of 60. [source: Application, pp3 & 8 and CN historical files]

The estimated capital expenditure for phase one of this project is $1,679,100 and phase two is estimated at $1,300,000, for a total capital expenditure $2,979,100. Of the total $2,979,100, 51% is related to constructions costs; 37% is related to equipment (both fixed and moveable); 8% is related to state sales tax; and the remaining 5% is related to permits and fees. [source: Application, p29]

THC Seattle, Inc.

THC-Seattle, Inc. is a Washington State, for-profit corporation whose primary business is owning, operating, or managing healthcare facilities throughout the United States. The majority of THC-Seattle's healthcare facilities, including those in Washington State, operate under the dba of "Kindred Healthcare, Inc." [source: Application, p1 & Appendix 2] For Certificate of Need purposes, the department considers THC-Seattle to be the applicant as defined under WAC 246-310-010.

For Washington State, THC-Seattle operates 11 healthcare facilities under the dba of Kindred, Healthcare, Inc. The 11 facilities include one hospital located in King County, and 10 nursing homes located in Clark (2), Cowlitz (1), King (3), Pierce (2), Snohomish (1), and Whatcom (1) counties. The 11 facilities are listed below. [source: Application, Appendix 2 and CN historical files] This project relates to two healthcare facilities located in King County--Kindred Hospital and First Hill Care Center nursing home, both located in the city of Seattle. [source: Application, Appendix 2 & DSHS nursing home directory]

Kindred Hospital is an 80-bed long term acute care hospital (LTACH) located at 10560 Fifth Avenue Northeast in Seattle; First Hill Care Center is a 172-bed nursing home located at 1334 Terry Avenue in the city of Seattle. This project proposes relocation of 50 LTACH beds from Kindred Hospital into First Hill Care Center. The addition of the 50 beds would be accomplished with an extensive, two-phase project. At project completion, Kindred Hospital's Fifth Avenue site would be operating a 30-bed LTACH and 40-bed skilled nursing facility. First Hill Care Center's Terry Avenue site would be operating a 50-bed LTACH and another 40-bed skilled nursing facility. The remaining 92 beds that were located at the Terry Avenue site will be relinquished by Kindred Nursing Centers West. [source: Application, project description; RA #050 and #051]

The estimated capital expenditure for this project is $10,683,481; of that amount, 64% is related to construction; 19% is related to equipment (both fixed and moveable); 8% is related to fees and permits; 7% is related to state sales tax; and the remaining 2% is related to land improvements and site preparation. [source: Application, p21]

CONCLUSIONS

Regional Hospital for Respiratory and Complex Care

For the reasons stated in this evaluation, Regional Hospital for Respiratory and Complex Care's proposal to add 33 LTACH beds to the existing 27 beds, for a facility total of 60, is consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to the following conditions.

Conditions

Regional Hospital for Respiratory and Complex Care must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Regional Hospital for Respiratory and Complex Care will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

Regional Hospital for Respiratory and Complex Care anticipates providing services in the 33 additional beds by the January 2009. If the project is not complete by December 31, 2009, any remaining bed authorization not meeting licensing requirements shall be forfeited.

Provided the applicant's agreement with the above conditions, a Certificate of Need should be issued. The approved capital expenditure for phase one of this project is $1,679,100 and phase two is approved at $1,300,000, for a total capital expenditure $2,979,100.

THC Seattle, Inc.

For the reasons stated in this evaluation, THC-Seattle's proposal to relocate 50 of its 80 LTACH beds from the north King planning area into the central King planning area at the First Hill campus is

consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to the following conditions.

Conditions

Kindred Hospital must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Kindred Hospital will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Kindred Hospital will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

THC-Seattle, anticipates providing acute care services in the fifty new acute care beds at the First Hill campus by the end of October 2007. Under this timeline, year 2008 would be the facility's first full year of operation. If the project is not complete by December 31, 2008, any remaining bed authorization not meeting licensing requirements shall be forfeited.

Provided the applicant's agreement with the above conditions, a Certificate of Need should be issued. The approved capital expenditure for this project is $10,683,481.

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF REGIONAL HOSPITAL FOR RESPIRATORY AND COMPLEX CARE PROPOSING TO ADD 33 LONG-TERM ACUTE CARE BEDS TO THE EXISTING 27-BED FACILITY LOCATED IN CENTRAL SEATTLE IN KING COUNTY

AND

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF THC SEATTLE, INC. PROPOSING TO RELOCATE 50 OF ITS EXISTING 80 LONG-TERM ACUTE CARE BEDS FROM NORTH SEATTLE TO CENTRAL SEATTLE IN KING COUNTY

LONG TERM ACUTE CARE HOSPITALS

Long-term acute care hospitals (LTACHs) differ from hospitals in that they furnish extended medical and rehabilitative care to individuals who are clinically complex and have multiple acute or chronic conditions. An LTACH must be certified as an acute care hospital that meets criteria to participate in the Medicare program and has an average inpatient length of stay greater than 25 days. [source: American Hospital Association Long Term Care Hospital home page]

LTACHs also differ from nursing homes and rehabilitation hospitals in that their patients generally require a higher level of medical attention. The LTACH is designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post-acute care settings. Approximately one half of the patients in an LTACH have five or more diagnoses noted on their claims. [source: Prospective Payment Assessment Commission, 1996]

Under the current Medicare payment system, LTACH reimbursement is structured to compensate hospitals for the care of patients whose average length of stay exceeds 25 days. The reimbursement model for general acute care hospitals is not designed to compensate hospitals for this population. As a result, the LTACH is a model of care that provides an environment tailored to medically complex patients and is able to serve those patients under a reimbursement model that adequately covers the costs of treatment. LTACHs in a community enable existing hospitals to improve facility utilization by discharging patients to the LTACH who would otherwise be occupying ICU or other acute care beds for long periods of time and place them in a suitable clinical setting. As a result, the existing hospitals are able to free space to more effectively manage their daily caseload, particularly in intensive care unit (ICU) and critical care unit (CCU) settings, which are often subjected to highly fluctuating occupancy rates. Referral of suitable patients to an LTACH improves hospitals' ability to ensure that ICU and CCU beds are available. [source: American Hospital Association Long Term Care Hospital home page]

PROJECT DESCRIPTIONS

Regional Hospital for Respiratory and Complex Care

Regional Hospital for Respiratory and Complex Care (Regional) is a non-profit LTACH located at 12844 Military Road South in the city of Tukwila, within King County. Regional is licensed by the Department of Health's Office of Health Care Survey as an acute care hospital and reimbursed by both Medicare and Medicaid. Regional is also fully accredited by the Joint Commission on the Accreditation of Health Care Organizations. [source: Application, p3 and CN historical files]

Currently, Regional is licensed for 27 acute care beds used solely for long-term acute care patients. This project proposes to add another 33 acute care beds, for a facility total of 60. The additional 33 beds would be added in two phases; phase one is the addition of 8 beds, for a total of 35; and phase two is the addition of the remaining 25 beds, for a facility total of 60. [source: Application, 8]

Regional currently leases 17,872 gross square feet within the existing Highline Medical Center Specialty campus. To accommodate the 33 beds, Regional intends to lease another 7,677 square feet, for a total of 25,589 gross square feet. While no new construction is anticipated, remodel of the new space is necessary. For phase one, Regional proposes to begin remodel of the space for 8 new beds immediately after CN approval, and the 8 beds would be operational by July 2006. Remodel of phase two would begin approximately January 2008, and the remaining 25 beds would be operational by January 2009. [source: Application, pp15 &18] If this project is approved, year 2007 would be the facility's first calendar year of operation as a 35-bed LTACH, year 2009 would be Regional's first calendar year of operation as a 60-bed LTACH, and year 2011 would be Regional's third calendar year of operation as a 60-bed LTACH.

The estimated capital expenditure for phase one of this project is $1,679,100 and phase two is estimated at $1,300,000, for a total capital expenditure $2,979,100. Of the total $2,979,100, 51% is related to constructions costs; 37% is related to equipment (both fixed and moveable); 8% is related to state sales tax; and the remaining 5% is related to permits and fees. [source: Application, p29]

THC Seattle, Inc.

THC-Seattle, Inc. is a Washington State, for-profit corporation whose primary business is owning, operating, or managing healthcare facilities throughout the United States. The majority of THC-Seattle's healthcare facilities, including those in Washington State, operate under the dba of "Kindred Healthcare, Inc." [source: Application, p1 & Appendix 2] For Certificate of Need purposes, the department considers THC-Seattle to be the applicant as defined under WAC 246-310-010.

For Washington State, THC-Seattle operates 11 healthcare facilities under the dba of Kindred, Healthcare, Inc. The 11 facilities include one hospital located in King County, and 10 nursing homes located in the counties of Clark (2), Cowlitz (1), King (3), Pierce (2), Snohomish (1), and Whatcom (1). The 11 facilities are listed below. [source: Application, Appendix 2 and CN historical files]

King County Hospital
Kindred Hospital/Seattle

Clark County Nursing Homes
Heritage Health and Rehabilitation Center/Vancouver
Vancouver Health and Rehabilitation Center/Vancouver

Cowlitz County Nursing Home
Northwest Continuum Care Center/Longview

King County Nursing Homes
Arden Rehabilitation & Healthcare/Seattle
First Hill Care Center/Seattle
Queen Anne Healthcare/Seattle

Pierce County Nursing Homes
Lakewood Healthcare Center/Lakewood
Rainier Vista/Puyallup

Snohomish County Nursing Home
Edmonds Healthcare Center/Edmonds

Whatcom County Nursing Home
Bellingham Healthcare & Rehabilitation

This project relates to two healthcare facilities located in King County--Kindred Hospital and First Hill Care Center nursing home, both located in the city of Seattle.

Kindred Hospital is an 80-bed LTACH located at 10560 Fifth Avenue Northeast in the city of Seattle. Kindred Hospital is licensed by the Department of Health's Office of Health Care Survey as an acute care hospital and reimbursed by both Medicare and Medicaid. The hospital is also fully accredited by the Joint Commission on the Accreditation of Health Care Organizations. [source: Application, p11 & CN historical files] First Hill Care Center is a 172-bed nursing home located at 1334 Terry Avenue in the city of Seattle. It is licensed by the Department of Social and Health Services and accepts both Medicare and Medicaid patients. [source: DSHS nursing home directory & CN historical files]

This project proposes relocation of 50 LTACH beds from Kindred Hospital into First Hill Care Center. The addition of the 50 beds would be accomplished with an extensive, two-phase project.

Phase one is Certificate of Need approval for relocation of 40 nursing home beds into space at Kindred Hospital. On August 25, 2005, Replacement Authorization (RA) #050 was issued to Kindred Nursing Centers, LLC (the licensing entity for First Hill Care Center) approving that project. In order to accommodate the 40 nursing home beds, the space at Kindred Hospital requires extensive modification. RA #050 was issued with an approved capital expenditure of $4,336,545. On October 13, 2005, RA #051 was issued to Kindred Nursing Centers, LLC approving the renovation of the space that located the 40 beds at First Hill Care Center. At that time, Kindred Nursing Centers, Inc. elected to relinquish 92 of the 132 remaining skilled nursing beds at First Hill Care Center. This actions will result in First Hill Care Center operating 40 skilled nursing beds, and, if this project under review is approved, a 50-bed LTACH.

As of the writing of this evaluation, commencement of the projects authorized under RA #050 and #051 have yet occurred; however, the department acknowledges that phase one cannot be complete unless, and until, phase two (described below) is approved.

Phase two is the construction and remodel of the space within First Hill Care Center that housed the 40 nursing home beds, and relocation of 50 acute care beds from Kindred Hospital into the newly constructed space. This phase requires Certificate of Need approval and is the project under review by THC-Seattle. Phase two requires the addition of 41,448 gross square footage and extensive remodel to First Hill Care Center to meet the appropriate licensure and code requirements for an acute care hospital. [source: Application, pp4 & 9] If this project is approved, THC-Seattle anticipates construction to begin August 2006, and the 50 LTACH beds would be operational October 2007. [source: Application, pp10-11] Under this timeline, calendar year 2008 would be the first full year of operation of the 50-bed Kindred Hospital-First Hill campus, and year 2010 would be the facility's third full year of operation.

At project completion, Kindred Hospital's Fifth Avenue site would be operating a 30-bed LTACH and a 40-bed skilled nursing facility. First Hill Care Center's Terry Avenue site would be operating a 50-bed LTACH and a 132-bed skilled nursing facility.

As stated above, phase one of this project is already approved under the issuance of RA #050 and RA #051. The capital associated with phase two--the project under review--is $10,683,481.[1] Of the $10,683,481, 64% is related to construction; 19% is related to equipment (both fixed and moveable); 8%

[1] The $10,683,481 does not include the approved costs associated RA #050 and #051.

is related to fees and permits; 7% is related to state sales tax; and the remaining 2% is related to land improvements and site preparation. [source: Application, p21]

APPLICABILITY OF CERTIFICATE OF NEED LAW

Regional Hospital for Respiratory and Complex Care

This project is subject to Certificate of Need review as the increase in the number of acute care beds at an existing acute care hospital under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

THC-Seattle, Inc.

This project is subject to Certificate of Need review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

APPLICATION CHRONOLOGY

Action	THC-Seattle, Inc. Application	Regional Hospital for Respiratory and Complex Care Application
Letter of Intent Submitted	January 20, 2005	April 14, 2005
Application Submitted	July 20, 2005	October 14, 2005
Department's Pre-Review Activities • 1st screening activities and responses • 2nd screening activities and responses	July 1, 2005 to January 3, 2006	October 15, 2005 to January 3, 2006
Department Begins Review of Applications • public comments accepted throughout the review	January 4, 2006	
End of Public Comment/No Public Hearing Requested or Conducted	February 8, 2006	
Rebuttal Documents Received at Department	February 24, 2006	
Department's Anticipated Decision Date	April 10, 2006	
Department's Actual Decision Date	April 28, 2006	

CONCURRENT REVIEW AND AFFECTED PARTIES

The concurrent review process promotes the expressed public policy goal of RCW 70.38 that the development or expansion of health care facilities be accomplished in a planned, orderly fashion and without unnecessary duplication. A concurrent review allows the department to review similar applications simultaneously to reach a decision that serves the best interests of the community's residents.

In the case of the projects submitted on behalf of Regional and THC-Seattle, the department will issue one single evaluation that makes a recommendation regarding whether both, neither, or one of the projects should be issued a Certificate of Need. This document is the concurrent review evaluation of the two projects.

For each application, the other entity sought and received affected person status under WAC 246-310-010. Further, one additional entity requested affected party for the Regional project. The T-chart below summarizes the affected party status for Regional and THC-Seattle.

Regional	THC-Seattle
• THC-Seattle • Swedish Medical Center	• Regional

SOURCE INFORMATION REVIEWED

- THC-Seattle, Inc.'s Certificate of Need application submitted July 20, 2005
- Regional Hospital for Respiratory and Complex Care's Certificate of Need application submitted October 14, 2005
- THC-Seattle, Inc.'s supplemental information dated September 23, 2005, December 15, 2005, and January 4, 2006
- Regional Hospital for Respiratory and Complex Care's supplemental information dated December 12, 2005 and January 9, 2006
- Regional Hospital for Respiratory and Complex Care's February 6, 2006, response to the department's February 2, 2006, request for additional information
- THC-Seattle, Inc.'s February 2, 2006, response to the department's February 2, 2006, request for additional information
- Kindred Healthcare, Inc.'s financial feasibility and cost containment evaluation prepared by the Department of Health's Office of Hospital and Patient Data Systems (April 12, 2006)
- Regional Hospital for Respiratory and Complex Care's Financial feasibility and cost containment evaluation prepared by the Department of Health's Office of Hospital and Patient Data Systems (April 14, 2006)
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Public comment received during the course of the reviews
- Population data obtained from the Office Financial Management based on year 2000 census published January 2002.
- Licensing and/or survey data provided by the Department of Social and Health Services
- Data obtained from Regional Hospital for Respiratory and Complex Care's website at www.regionalhospital.org
- Data obtained from THC-Seattle, Inc.'s website at www.kindredhealthcare.com
- Acute Care Bed Methodology extracted from the 1987 State Health Plan
- Data obtained from the Internet regarding mileage and distance
- Certificate of Need Historical files

CRITERIA EVALUATION

To obtain Certificate of Need approval, each applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and portions of the 1987 State Health Plan as it relates to the methodology for acute care beds.[2]

CONCLUSIONS

Regional Hospital for Respiratory and Complex Care

For the reasons stated in this evaluation, Regional Hospital for Respiratory and Complex Care's proposal to add 33 LTACH beds to the existing 27 beds, for a facility total of 60, is consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to the following condition.

Conditions

Regional Hospital for Respiratory and Complex Care must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Regional Hospital for Respiratory and Complex Care will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

Regional Hospital for Respiratory and Complex Care anticipates providing services in the 33 additional beds by the January 2009. If the project is not complete by December 31, 2009, any remaining bed authorization not meeting licensing requirements shall be forfeited.

Provided the applicant's agreement with the above conditions, a Certificate of Need should be issued. The approved capital expenditure for phase one of this project is $1,679,100 and phase two is approved at $1,300,000, for a total capital expenditure $2,979,100.

THC Seattle, Inc.

For the reasons stated in this evaluation, THC-Seattle's proposal to relocate 50 of its 80 LTACH beds from the north King planning area into the central King planning area at the First Hill campus is consistent with application criteria of the Certificate of Need Program, provided the applicant's agreement to conditions on the following page.

[2] Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6).

Conditions

Kindred Hospital must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Kindred Hospital will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Kindred Hospital will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

THC-Seattle, anticipates providing acute care services in the fifty new acute care beds at the First Hill campus by the end of October 2007. Under this timeline, year 2008 would be the facility's first full year of operation. If the project is not complete by December 31, 2008, any remaining bed authorization not meeting licensing requirements shall be forfeited.

Provided the applicant's agreement with the above conditions, a Certificate of Need should be issued. The approved capital expenditure for this project is $10,683,481.

A. Need (WAC 246-310-210)

Regional Hospital for Respiratory and Complex Care

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

THC-Seattle, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

Regional Hospital for Respiratory and Complex Care Numeric Methodology

As previously stated, Regional is licensed for 27 acute care beds used solely for long-term acute care patients. Regional is located in the city of Tukwila; for CN purposes is considered southwest King County. This project proposes to add another 33 acute care beds, for a facility total of 60. Regional's additional 33 beds would be added in two phases; phase one is the addition of 8 beds, which would become operational approximately July 2006. Phase two is the addition of the remaining 25 beds, for a facility total of 60. All 60 beds would become operational in year 2009. [source: Application, 8, 15, & 18]

For its numeric demonstration of need for additional beds, Regional acknowledged that the department does not have an established methodology for determining need specifically for LTACH beds. Regional provided a multi-step methodology to demonstrate numeric need for the additional LTACH beds. Regional used the following process/assumptions as a basis for its methodology:

1) calculated a use rate;
2) applied the use rate to the estimated adult population of Washington State;
3) projected patient days assuming an average length of stay of 50 days;
4) adjusted for out-of-state use;
5) market share adjusted the projected patient days by holding Regional's actual 2004 market share constant; and
6) assumed a desired target midnight occupancy level of 65%.

After applying its process and assumptions above, Regional determined a need for a total of 62 LTACH beds in King County for year 2011. [source: Application, pp26-27; Exhibit 9]

THC-Seattle, Inc.'s Numeric Methodology

Kindred Hospital is an 80-bed LTACH located at 10560 Fifth Avenue Northeast in the city of Seattle. Kindred Hospital is located in north King County, however, this project proposes to relocate 50 of Kindred Hospital's existing 80 beds to a site in central King County. The addition of the 50 beds to central King County would be accomplished with an extensive, two-phase project at its First Hill facility. As previously stated, phase one has already commenced under RAs #050 and #051 issued to Kindred Nursing Centers, LLC. Phase two is the construction and remodel of the space within First Hill Care Center that is located in central King County, where the 50 LTACH beds would be located. If this project is approved, THC-Seattle anticipates construction to begin August 2006, and the 50 LTACH beds would be operational October 2007. [source: Application, pp10-11] Under this timeline,

calendar year 2008 would be the first full year of operation of the 50-bed Kindred Hospital-First Hill campus, and year 2010 would be the facility's third full year of operation.

For its numeric demonstration of need for additional beds, THC-Seattle also provided a different, multi-step methodology to demonstrate numeric need for the additional LTACH beds. In its methodology, THC-Seattle determined the types of patients to be excluded from its methodology:

1) patients aged 0-17;
2) diagnoses not typically served in an LTACH (i.e., MDCs #13, #14, #15, #19, #20, #22, and #23)[3];
3) DRGs specific to patients less than 18 years of age and any transplant patients; and
4) patients with a length of stay less than 17 days.

Using the exclusions above, THC-Seattle used the following types of patients as a basis for its numeric need methodology:

1) patients discharged from a short-term acute care hospital located in King or Snohomish counties;
2) patients 18 years of age or older;
3) patients assigned to one of the remaining 387 LTACH referral DRGs; and
4) patients with a length of stay that exceeds 17 days (7 day stay at short term acute care hospital and 10 day minimum length of stay at an LTACH).

After applying its assumptions above, THC-Seattle determined a need for a total of 192 LTACH beds in King and Snohomish counties for year 2010. [source: December 15, 2005, supplemental information, Appendix 4]

The Department's Determination of Numeric Need:

The department uses the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan to assist in its determination of need for acute care capacity. This forecasting method is designed to evaluate need for additional capacity in general, rather than identify need for a specific project. The department prepared bed need forecasts for both central and southwest King County relying on data provided by the applicants to determine baseline need for acute care capacity. This set of projections is completed prior to determining whether the applicants should be approved to meet any projected need.

The determination of numeric need for acute care hospital beds is performed using the Hospital Bed Need Forecasting Method contained in the 1987 Washington State Health Plan (SHP). Though the SHP was "sunset" in 1989, the department has concluded that this methodology is a reliable tool for predicting the baseline need for acute care beds.

The 1987 methodology was a revision of an earlier projection methodology prepared in 1979 and used in the development of subsequent State Health Plans. This methodology was developed as a planning tool for the State Health Coordinating Council (SHCC) to facilitate long-term strategic planning of health care resources. The methodology is a flexible tool, capable of delivering results for a variety of applications, dependent upon variables such as referral patterns, age-specific needs for services, and the preferences of the users of hospital services, among others.

[3] MDC #13-female reproductive system; #14-pregnancy, childbirth, and puerperium; #15-newborns and other neonates; #19-mental diseases and disorders; #20-alcohol and substance abuse; #22-burns; and #23-factors influencing health status.

The 1987 methodology is a twelve-step process of information gathering and mathematical computation. The first four steps develop trend information on hospital utilization. The next six steps calculate baseline non-psychiatric bed need forecasts. The final two steps are intended to determine the total baseline hospital bed need forecasts, including need for short-stay psychiatric services: step 11 projects short-stay psychiatric bed need, and step 12 is the adjustment phase, in which any necessary changes are made to the calculations in the prior steps to reflect conditions which might cause the pure application of the methodology to under- or over-state the need for acute care beds.

The department must apply the acute care bed methodology for southwest King County for the Regional project and central King County for the THC-Seattle project. The completed methodology for both central and southwest King County is presented as a series of appendices to this evaluation. The methodology presented here incorporates all adjustments that were made following preparation of the methodology. Where necessary, both adjusted and un-adjusted computations are provided. The methodology uses population and healthcare use statistics on several levels: statewide, Health Service Area (HSA)[4], and planning area.

This portion of the evaluation will describe, in summary, the calculations made at each step and the assumptions and adjustments made in that process. The department's methodology for southwest King County, which is Regional's project, is shown in Exhibit 1; the department's methodology for THC-Seattle's project for central King County is shown in Exhibit 2.

The titles for each step are excerpted from the 1987 SHP.

Step 1: Compile state historical utilization data (i.e., patient days within major service categories) for at least ten years proceeding the base year.

For this step, the department obtained utilization data for 1996 through 2004 from the Department of Health's Office of Hospital and Patient Data Systems' CHARS (Comprehensive Hospital Abstract Reporting System) database. Total patient days were identified for each of the two planning areas, HSA #1, and Washington State as a whole, excluding psychiatric patient days [Major Diagnostic Category (MDC) 19] and normal newborns [Diagnostic Related Group (DRG) 391], according to the county in which care was provided. Normal newborn days (DRG 391) were excluded because the normal newborn patients (babies) do not occupy a licensed acute care bed. The mothers of the normal newborns are included in the patient days (MDC 14 and DRG 370-384). The limitation of this table to nine years' data, rather than ten years' data, is discussed in step 4, below. Step 1 is shown in Appendix 1.

Step 2: Subtract psychiatric patient days from each year's historical data.

This step was partially accomplished by limiting the data obtained for Step 1, above. The remaining data still included non-MDC 19 patient days spent at psychiatric hospitals. Patient days at dedicated

[4] The state is divided into four HSA's by geographic groupings. HSA 1 is composed of Clallam, Island, Jefferson, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, and Whatcom Counties. HSA 2 is composed of Clark, Cowlitz, Grays Harbor, Klickitat, Lewis, Mason, Pacific, Skamania, Thurston, and Wahkiakum counties. HSA 3 is composed of Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, and Yakima Counties. HSA 4 is composed of Adams, Asotin, Columbia, Ferry, Garfield, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, and Whitman counties.

psychiatric hospitals were identified for each year and subtracted from each year's total patient days. The adjusted patient days are shown in Appendix 2 of each respective exhibit.

Step 3: For each year, compute the statewide and HSA average use rates.

The average use rate (defined as the number of patient days per 1,000 population) was derived by dividing the total number of patient days in each HSA by that HSA's population and multiplied by 1,000. Using the same process, the average use rate was also determined for each planning area and is attached as Appendix 3. Actual and projected population figures for this analysis were derived from the Washington State Office of Financial Management (OFM) "intermediate-series" county population projections, based on the 2000 census, developed January 2002[5], and the OFM April 2004 population estimates.

Step 4: Using the ten-year history of use rates, compute the use rate trend line, and its slope, for each HSA and for the state as a whole.

The department has previously determined that changes in the healthcare delivery system occurring in the first few years of the most recent ten years, such as changes in the federal Medicare reimbursement system and increasing application of managed care principles, were responsible for a sharp decline in use rates during the period 1993-1995. It is the department's conclusion that these factors represent an adjustment in the delivery of healthcare that is unlikely to be duplicated in the near future. As a result, the department has concluded that the period 1996-2004 more accurately represents use rates at present and for the foreseeable future. Consequently, the department computed trend lines for the state, HSA #1, and each planning area based upon the trends in use rates from these nine years and included them as Appendix 4. The resulting trend lines uniformly exhibit a mild upward slope. This conclusion is generally supported by increasing utilization reported by hospitals throughout the state in recent years, and may be indicative of a growing population. More significant than overall population growth is the fact that the state's population is growing older as the large number of "baby boomers" (those born from 1946 to 1964) age and begin to demand more health services. Utilization of hospital beds by patients aged 65 and older is significantly higher than bed utilization by younger patients, as demonstrated in subsequent calculations.

Step 5: Using the latest statewide patient origin study, allocate non-psychiatric patient days reported in hospitals back to the hospital planning areas where the patients live. (The psychiatric patient day data are used separately in the short-stay psychiatric hospital bed need forecasts.)

The previous four steps of the methodology involved data identified by the planning area where care was provided. In order to determine the need for services for residents of a given planning area, patient days must be identified, instead, by the area where the patients live. For the Regional project, Step 5, included as Appendix 5, identifies referral patterns in and out of the southwest King planning area and illustrates where residents of the planning area currently receive care. For the THC-Seattle project, Appendix 5 in Exhibit 2 identifies referral patterns in and out of the central King planning area and illustrates where residents of the planning area currently receive care. For this calculation, the department separated patient days by age group (0-64 and 65 and older), and subtracted patient days for residents of other states. The department also uses hospital discharge data obtained from the Oregon Department of Human Services to identify patient days for Washington residents obtaining

[5] Found on the World Wide Web at http://www.ofm.wa.gov/pop902020/pop902020toc.htm and at http://www.ofm.wa.gov/pop/april1/finalpop2004.xls.

health care in Oregon (the department is not aware of similar data for the state of Idaho). As of the writing of this evaluation, the Oregon data for 2003 is unavailable. Therefore, the department has estimated the values for the numbers of Washington residents seeking care in Oregon hospitals by taking an average of those values in the most recent of several applications of the methodology.

As has been noted earlier, the original purpose for this methodology was to create comprehensive, statewide resource need forecasts. For the Regional project, the state was broken into two planning areas – southwest King and the state as a whole minus southwest King. For the THC-Seattle project, the breakdown is central King and the state as a whole, minus central King. Appendix 5 in each of the two exhibits illustrate the age-specific patient days for residents of the planning areas and for the rest of the state.

Step 6: Compute each hospital planning area's use rate (excluding psychiatric services) for each of the age groups considered (at a minimum, ages 0-64 and 65+).

Appendix 6 illustrates the age-specific use rates for the year 2004, as defined in Step 3, for each of the respective planning areas and for the rest of the state.

Step 7A: Forecast each hospital planning area's use rates for the target year by "trend-adjusting" each age-specific use rate. The use rates are adjusted upward or downward in proportion to the slope of either the statewide ten-year use rate trend or the appropriate health planning region's ten-year use rate trend, whichever trend would result in the smaller adjustment.

As discussed in Step 4, the department concluded that the nine-year use rate trends for 1996-2004 reflect the behavior of Washington residents more accurately than the ten-year use rate trends for 1995-2004. The 2004 use rates determined in Step 6 were multiplied by the slopes of both the planning area's nine-year use rate trend line and by the slope of the statewide nine-year use rate trend line for comparison purposes.

For the Regional project in the southwest King planning area, the statewide trend is a higher rate of increase (an annual increase of 3.0705) than the planning area trend (an annual increase of 1.7876). As directed in Step 7A, the department applied the planning area trend to project future use rates.

For the THC-Seattle project in the central King planning area, the statewide trend of 3.0705 equates to less of a trend than the planning area trend, which showed an annual increase of -4.1638. Therefore, as directed in Step 7A, the department applied the statewide trend to project future use rates in the central King planning area.

Step 8: Forecast non-psychiatric patient days for each hospital planning area by multiplying the area's trend-adjusted use rates for the age groups by the area's forecasted population (in thousands) in each age group at the target year. Add patient days in each age group to determine total forecasted patient days.

Using the statewide forecasted use rate for the sample target year 2010 and population projections prepared by the applicants for the two planning areas and the OFM medium series for the state, the department's projected patient days for each planning area's residents are illustrated in Appendix 8. As noted in Step 7 above, forecasts have been prepared for a series of years and are presented in summary in Appendix 10.

Step 9 Allocate the forecasted non-psychiatric patient days to the planning areas where services are expected to be provided in accordance with (a) the hospital market shares and (b) the percent of out-of-state use of Washington hospitals, both derived from the latest statewide patient origin study.

Using the patient origin study developed for Step 5, Appendix 9 illustrates how the projected patient days for the each planning areas and the remainder of the state were allocated from county of resident to the area where the care is projected to be delivered in the target year.

For the southwest King planning area, Regional provided population data through year 2010. Given that Regional's second phase is expected to occur in year 2009, a target year of 2010 is acceptable.

For the central King planning area, THC-Seattle provided population data through year 2011, therefore, the department was able to project through 2011. The applicant anticipates all 50 beds would be operational at the First Hill site in year 2008; a target year of 2010 is also acceptable for this project.

Step 10: Applying weighted average occupancy standards, determine each planning area's non-psychiatric bed need. Calculate the weighted average occupancy standard as described in Hospital Forecasting Standard 11.f. This should be based on the total number of beds in each hospital (Standard 11.b), including any short-stay psychiatric beds in general acute-care hospitals. Psychiatric hospitals with no other services should be excluded from the occupancy calculation.

The number of beds in the planning area was identified in accordance with the SHP standard 12.a., which states:

1. beds which are currently licensed and physically could be set up without significant capital expenditure requiring new state approval;
2. beds which do not physically exist but are authorized unless for some reason it seems certain those beds will never be built;
3. beds which are currently in the license but physically could not be set up (e.g., beds which have been converted to other uses with no realistic chance they could be converted back to beds);
4. beds which will be eliminated.

SHP determines the number of available beds in each HSA, by including only those beds that meet the definition of #1 and #2 above, plus any CN approved beds. This information was gathered through the Department of Health's Office of Hospital and Patient Data Systems records.

For Regional's southwest King planning area, there are two acute care hospitals, including the applicant facility, for a total of 136 beds. Below is a summary of the four facilities. [source: CN and OHCS files]

Regional Hospital for Respiratory and Complex Care, Tukwila

The applicant, Regional, is a non-profit LTACH currently licensed for 27 acute care beds.

Highline Medical Center, Burien and Tukwila

This hospital has two locations—the main campus is located in the city of Burien and the specialty campus is located in Tukwila. Regional is located on the Highline Medical Center specialty campus in Tukwila. Highline Medical Center is licensed for 269 acute care beds, however, according to the

department's Office of Hospital and Patient Data Systems (OHPDS), only 136 beds are set up and operational. As a result, the department counts Highline Medical Center at 136 beds.

For THC-Seattle's central King planning area, there are five acute care hospitals, for a total of 1,446 beds. Below is a summary of the five facilities. [source: CN and year 2004 OHPDS files]

Group Health-Central,

This hospital is located at 201 - 16th Avenue East in the city of Seattle. Group Health is licensed for 326 acute care beds, however, according to OHPDS, only 14 beds are set up and operational. As a result, the department counts Group Health-Central at 14.

Harborview Medical Center

Harborveiw Medical Center is an acute care hospital with a level I trauma designation located at 325 - 9th Avenue in the city of Seattle. Harborveiw Medical Center is licensed for 413 acute care beds, and OHPDS, shows that only 306 are set up and operational. The department counts Harborveiw Medical Center at 306.

Swedish Medical Center-Providence Campus

Swedish Medical Center's Providence Campus is an acute care hospital located at 500 - 17th Avenue in the city of Seattle. The Providence Campus is licensed for 385 acute care beds, and OHPDS, shows that only 166 are set up and operational. The department counts Swedish Medical Center's Providence Campus at 166.

Swedish Medical Center-Seattle Campus

Swedish Medical Center's Seattle Campus is an acute care hospital located at 747 Broadway in the city of Seattle. Swedish's Seattle Campus is licensed for 860 acute care beds, and OHPDS, shows that only 658 are set up and operational. The department counts Swedish Medical Center's Seattle Campus at 658.

Virginia Mason Hospital, Seattle

Virginia Mason Hospital is an acute care hospital located at 925 Seneca Street in the city of Seattle. Virginia Mason Hospital is licensed for 336 acute care beds, and OHPDS, shows that only 302 are set up and operational. The department counts Virginia Mason Hospital at 306.

In summary, for the central King planning area, the department counts a total of 1,446 acute care beds.

The weighted occupancy standard for a planning area is defined by the SHP as the sum, across all hospitals in the planning area, of each hospital's occupancy rate times that hospital's percentage of total beds in the area. In previous evaluations, the department determined that the occupancy standards reflected in the 1987 SHP are higher than can be maintained by hospitals under the current models for provision of care. As a result, the department has adjusted the occupancy standards presented in the SHP downward by 5% for all but the smallest hospitals (1 through 49 beds).

For the southwest King planning area, the weighted occupancy has been determined to be 62.52%; the central King planning area's weighted occupancy is determined to be 73.61%. These weighted

occupancy standards are reflected in the line "Wtd Occ Std" in Appendix 10 for each of the two exhibits.

While the methodology states that short-stay psychiatric beds should be included in the above total, the fact that all psychiatric patient days were excluded from the patient days analyzed elsewhere in the methodology makes their inclusion inconsistent with the patient days used to determine need.

Step 11: To obtain a bed need forecast for all hospital services, including psychiatric, add the non-psychiatric bed need from step 10 above to the psychiatric inpatient bed need from step 11 of the short-stay psychiatric hospital bed need forecasting method.

Neither applicant proposes to add psychiatric services at the facility. In step 10, the department excluded the short stay psychiatric beds from the bed count total. For these reasons, the department concluded that psychiatric services should not be forecast while evaluating these projects.

Step 12: Determine and carry out any necessary adjustments in population, use rates, market shares, out-of-area use and occupancy rates, following the guidelines in section IV of this Guide.

Within the department's application of the methodology, adjustments have been made where applicable and described above.

Regional Hospital for Respiratory and Complex Care

Appendix 10a calculates the southwest King planning area bed need without the proposed project. Appendix 10b demonstrates the impact of adding Regional's proposed 33 beds in two-phases to the existing 163 beds, resulting in 171 beds in year 2006 and 196 beds in year 2010. A summary of those appendices is shown below. [source: Department's Exhibit 1 attached to this evaluation]

Table I
Southwest King Planning Area Appendix 10A and 10B Summary

	2006	2007	2008	2009	2010
Planning Area # of beds	163	163	163	163	163
Appendix 10A (w/o project)	19	21	22	24	25
Planning Area # of beds	171	171	171	196	196
Appendix 10B (w/ project)	13	14	15	-12	-10

A negative number indicates a surplus of beds. Numbers are rounded to whole numbers

As shown in Table I above, for year current year 2006, Appendices 10a and 10b illustrate a planning area net shortage of 19 and 13 beds, respectively. Appendix 10a indicates the planning area's shortage would increase to 25 beds by the end of year 2010.

On the other hand, Appendix 10b illustrates the effect on the planning area of both phases of Regional's project. Adding 8 beds in year 2006 at Regional creates a shortage of 13 beds in year 2006, which increases to 15 beds in year 2008. Once phase two of this project is implemented and the remaining 25 beds are added to Regional, the shortage becomes a 12 bed surplus in year 2009, which decreases to a 10 bed surplus by the end of year 2010.

As demonstrated by the methodology above, the southwest King planning area currently shows a need for additional acute care bed capacity of 19 beds, which increases to 25 beds in year 2010.

THC-Seattle, Inc.

Appendix 10a calculates the central King planning area bed need without the project. Appendix 10b demonstrates the impact of relocating 50 of THC-Seattle's 80 LTACH beds from the north King planning area into the central King planning area. The 50 LTACH beds would become operational in year 2008, resulting in 1,496 beds in the planning area. A summary of those appendices is shown below. [source: Department's Exhibit 2 attached to this evaluation]

Table II
Central King Planning Area Appendix 10A and 10B Summary

	2006	2007	2008	2009	2010
Planning Area # of beds	1,446	1,446	1,446	1,446	1,446
Appendix 10A (w/o project)	48	76	104	133	162
Planning Area # of beds	1,446	1,446	1,496	1,496	1,496
Appendix 10B (w/ project)	48	76	71	100	129

A negative number indicates a surplus of beds. Numbers are rounded to whole numbers

As shown in Table II above, for year current year 2006 and projected year 2007, Appendices 10a and 10b illustrate a planning area net shortage of 48 and 76 beds, respectively. Appendix 10a indicates the planning area's shortage would increase to 162 beds by the end of year 2010.

On the other hand, Appendix 10b illustrates the effect on the planning area of THC-Seattle's project. Adding 50 beds in year 2008 at the First Hill site decreases the shortage to 71 beds in year 2008, which increases to a shortage of 129 beds in year 2010.

As demonstrated by the methodology above, the central King planning area currently shows a need for additional acute care bed capacity of 48 beds, which increases to 162 beds in year 2010.

As previously indicated in this evaluation, LTACHs are acute care hospitals that provide acute care services to their community. The LTACH is designed to provide extended medical and rehabilitative care for patients who are clinically complex and have multiple acute or chronic conditions. Most patients in LTACHs have several diagnosis codes on their Medicare claim, which indicates that they have multiple co-morbidities and are less stable on admission than patients admitted to other post-acute care settings. While the department's numeric bed methodology is a starting point for evaluating need for these projects, it is not the sole determinant. In addition to the numeric methodology above, the department must also determine whether existing acute care providers are available and accessible in the planning area. During the course of this review, the department received seven letters of support from the following hospitals.

King County/City
Highline Medical Center, Burien and Tukwila
Valley Medical Center, Renton
FHS-St. Francis, Federal Way
Swedish Medical Center, Seattle

Pierce County/City
FHS-St. Clare, Lakewood
FHS-St. Joseph, Tacoma
MultiCare Health System, Tacoma

The letters of support provided for both projects focused on the services provided by LTACHs. Typically, LTACH services include extensive rehabilitation and long term management of multiple acuity patients. While many of the hospitals acknowledged that they can, and do, provide care for these patients, LTACHs provide the care more efficiently in the appropriate setting. Further, all of the letters of support indicated that these highly complex patients requiring extensive medical care, are more appropriately cared for in the LTACH setting. Further, within the letters of support, each hospital acknowledged a typical high occupancy at LTACHs, with results in increasing difficultly in finding bed space for patients. Finally, all of the hospitals listed above indicated that an increase in LTACH bed capacity would assist them in better management of their own patients.

In summary, applying the acute care bed methodology's mathematical calculation indicates that the addition of beds in the southwest and central King planning areas are appropriate. Further, based on information provided in the application, the department concludes that need for an additional 33 LTACH beds has been demonstrated by Regional. Further, the department concludes that THC-Seattle has demonstrated a need to relocate 50 LTACH beds from the north King planning area into the central King planning area.

As a result, Regional's project is consistent with the need criterion; this sub-criterion is met. THC-Seattle's project is consistent with the need criterion; and this sub-criterion is met.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

As previously stated, both applicants provide health care services to residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups. To determine whether all residents of the service area would continue to have access to an applicant's proposed services, the department requires applicants to provide a copy of its admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To determine whether low income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility. Further, for charity care reporting purposes, the OHPDS, divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Both applicants are located in the King County Region. There are 20 hospitals located within the King County Region, including Regional and Kindred Hospital. Below is a review of each applicant's historical charity care provided at the respective hospital.

Regional Hospital for Respiratory and Complex Care

For this project, the applicant provided a copy of Regional's current admission policy. The policy demonstrates that all residents of the service area currently have access to the services provided by Regional provided that the patient is a candidate for services provided in an LTACH. The policy also indicates that patients are admitted to Regional without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. Additionally, the applicant provided documentation to demonstrate that the facility currently provides, and will continue to provide, services to the Medicare and Medicaid patients. [source: Application, p21 and Exhibit 4]

Regional also provided a copy of its current charity care policy. The Charity Care Policy confirms that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups currently have access to healthcare services through Regional. The policy also includes the process one must use to access charity care at Regional. [source: Application, Exhibit 5]

According to 2002-2004[6] charity care data obtained from OHPDS, Regional has historically provided considerably less than the average percentage of charity care provided in the King County Region. Regional's most recent three-year (2002-2004) average percentage of charity care for gross and adjusted revenues are 0.02% and 0.07%, respectively. The 2002-2004 average for the King County Region is 0.98% for gross revenue and 1.74%, for adjusted revenue.[7] [source: OHPDS 2002-2004 charity care summaries] Regional's pro formas and current charity care policies both indicate that the hospital will provide charity care; further, the pro forma documents indicate that Regional intends to provide charity care at a percentage higher than the most recent three-year regional average. [source: Application, Exhibit 6] However, as noted above, Regional's historical charity care percentages do not support this assertion. If this project is approved, to ensure that Regional would provide at least the average charity care of the region, the department would require Regional to agree to the following condition:

> Regional Hospital for Respiratory and Complex Care must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Regional Hospital for Respiratory and Complex Care will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Regional Hospital for Respiratory and Complex Care will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

The department concludes that approval of this project would not negatively affect current or projected patient access to the hospital, and, provided that Regional agree to the condition as stated

[6] Year 2005 charity care data is not available as of the writing of this evaluation.

[7] Harborview Medical Center is subsidized by the state legislature to provide charity care services. Charity care percentages for Harborview make up almost 50% of the total percentages provided in the King County Region. Therefore, for comparison purposes, the department excluded Harborview Medical Center's percentages.

above, Regional's additional LTACH beds would be available to all residents of the service area. This sub-criterion is met.

THC-Seattle, Inc.

To demonstrate compliance with this sub-criterion, the applicant provided a copy of its admission policy currently used by Kindred Hospital. The policy demonstrates that all residents of the service area currently have access to the services provided by Kindred Hospital provided that the patient is a candidate for services provided in an LTACH. The policy also indicates that patients are admitted to Kindred Hospital without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. Additionally, the applicant provided documentation to demonstrate that the facility currently provides, and will continue to provide, services to the Medicare and Medicaid patients. [source: Application, pp11-12 and January 4, 2006, supplemental information, Exhibit 1]

THC-Seattle also provided a copy of its current charity care policy used at Kindred Hospital. The Charity Care Policy confirms that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups currently have access to healthcare services through the LTACH. The policy also includes the process one must use to access charity care. [source: December 15, 2005, supplemental information, Appendix 3]

According to 2002-2004 charity care data obtained from OHPDS, Kindred Hospital has not historically provided any charity care at the hospital. As stated previously, the 2002-2004 average for the King County Region is 0.98% for gross revenue and 1.74%, for adjusted revenue. [source: OHPDS 2002-2004 charity care summaries] Pro formas and current charity care policies provided by the applicant for Kindred Hospital both indicate that the hospital would provide charity care; further, the pro forma documents indicate that Kindred Hospital's charity care percentages would be considerably less than the most recent three-year regional average. [source: August 23, 2005, supplemental information, Appendix 15] However, as noted above, Kindred Hospital's historical charity care percentages do not support this assertion. If this project is approved, to ensure that Kindred Hospital would provide at least the average charity care of the region, the department would require THC-Seattle to agree to the following condition related to the hospital's charity care:

> Kindred Hospital must provide charity care in compliance with the charity care policies provided in this Certificate of Need application and the requirements of the applicable law. Specifically, Kindred Hospital will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. For historical years 2002-2004, these amounts are 0.98% gross revenue and 1.74% adjusted revenue. Kindred Hospital will maintain records at the facility documenting the amount of charity care it provides and demonstrating compliance with its charity care policies and applicable law.

The department concludes that approval of this project would not negatively affect current or projected patient access to the hospital, and, provided that THC-Seattle agree to the condition for Kindred Hospital as stated above, Kindred Hospital's 50 relocated LTACH beds would be available to all residents of the service area. This sub-criterion is met.

C. Financial Feasibility (WAC 246-310-220)

Regional Hospital for Respiratory and Complex Care

Based on the source information reviewed, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

THC-Seattle, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

To assist the department in its evaluation of this sub-criterion, Office of Hospital and Patient Data Systems (OHPDS) provides a summary of the short and long-term financial feasibility of the project, which includes a financial ratio analysis. The analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios typically utilized are **1)** long-term debt to equity ratio; **2)** current assets to current liabilities ratio; **3)** assets financed by liabilities ratio; **4)** total operating expense to total operating revenue ratio; and **5)** debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible. Additionally, OHPDS reviews a project's three-year projected statement of operations. Below is a summary of the OHPDS review for both projects.

Regional Hospital for Respiratory and Complex Care

For the addition of 33 beds at Regional, OHPDS compared the financial health of the hospital for December 31, 2004 to the statewide year 2004 financial ratio guidelines for hospital operations. Additionally, OHPDS compared Regional's proposed financial ratios to the year 2004 financial ratio guidelines. Given that the 33 beds would be added in two phases, the comparison included a review through year 2011, the third full year of operation as a 60-bed LTACH. Tables III below provides a summary of the comparisons. [source: OHPDS analysis, p3]

Tables III
Regional Hospital for Respiratory and Complex Care's Projected Financial Ratios

Financial Ratio	OHPDS Guideline		Regional's Current - 2004	Year 1 2006	Year 2 2007	Year 3 2008
Long Term Debt to Equity	0.530	* Below	--------	0.304	0.171	0.089
Current Assets/Current Liabilities	2.067	* Above	1.241	2.385	2.749	3.225
Assets Funded by Liabilities	0.429	* Below	0.689	0.485	0.406	0.333
Total Operating Expense to Total Operating Revenue	0.969	* Below	0.906	0.894	0.910	0.910
Debt Service Coverage	4.307	* Above	21.759	33.480	23.334	27.960

Financial Ratio	OHPDS Guideline		Regional's Current - 2004	Year 4 2009	Year 5 2010	Year 6 2011
Long Term Debt to Equity	0.530	* Below	--------	0.036	0.004	(0.002)
Current Assets/Current Liabilities	2.067	* Above	1.241	3.191	3.844	4.582
Assets Funded by Liabilities	0.429	* Below	0.689	0.289	0.239	0.208
Total Operating Expense to Total Operating Revenue	0.969	* Below	0.906	0.922	0.922	0.919
Debt Service Coverage	4.307	* Above	21.759	36.827	43.562	53.471

* = a project is considered more feasible if the ratios are above or below the value/guideline as indicated

After reviewing the financial information for Regional regarding the additional 33-bed LTACH, staff from OHPDS stated the following:

"All the ratios for Regional Hospital for Respiratory and Complex Care are better than the State average for fiscal year end 2004 or are within appropriate range of the state 2004 figures. Regional is projected to have an 8.1% profit margin in CON Year 6, which is above average compared to Washington State hospitals. … the financial ratios for the operations in 2011, …are all better than the state 2004 figures." [source: OHPDS analysis, pp3-4]

In addition to the projected ratios above, OHPDS also prepared a summary of Regional's Statement of Operations for years 2006 through 2011, which includes both phases of the project. [source: Application, Exhibit 6] A summary of the Statement of Operations is shown in Tables IV below.

Tables IV
Regional Hospital for Respiratory and Complex Care
Statement of Operations Summary Projected Years 2006 through 2011

	Year One (2006)	Year Two (2007)	Year Three (2008)
# of Beds	35	35	35
# of Patient Days	9,165	10,590	11,550
% Occupancy	71%	83%	90%
Net Revenue*	$ 18,202,080	$ 21,032,789	$ 22,937,810
Total Expense	$ 16,266,267	$ 19,140,442	$ 20,879,769
Net Profit or (Loss)	$ 1,935,813	$ 1,892,347	$ 2,058,041
Net Revenue per patient day	$ 1,986.04	$ 1,986.10	$ 1,985.96
Total Expenses per patient day	$ 1,774.82	$ 1,807.41	$ 1,807.77
Net Profit or (Loss) per patient day	$ 211.22	$ 178.69	$ 178.19

*Includes deductions for bad debt, charity care, and contractual allowances

	Year Four (2009)	Year Five (2010)	Year Six (2011)
# of Beds	60	60	60
# of Patient Days	11,124	15,873	16,493
% Occupancy	62%	65%	68%
Net Revenue*	$ 26,811,641	$ 28,151,245	$ 29,558,989
Total Expense	$ 24,726,054	$ 25,961,389	$ 27,168,218
Net Profit or (Loss)	$ 2,085,587	$ 2,189,856	$ 2,390,771
Net Revenue per patient day	$ 1,986.05	$ 1,985.98	$ 1,985.96
Total Expenses per patient day	$ 1,831.56	$ 1,831.49	$ 1,825.33
Net Profit or (Loss) per patient day	$ 154.49	$ 154.49	$ 160.63

*Includes deductions for bad debt, charity care, and contractual allowances

As noted in Tables IV above, Regional anticipates operating at a profit through phase one with the addition of 8 beds and through phase two, after adding the remaining 25 beds. After reviewing the Statement of Operations summary shown above for the new 50-bed LTACH, staff from OHPDS stated the following:

"Regional Hospital's rates are similar to the Washington's statewide averages. A review of the data shows no unreasonable impact on the hospital or the community. The project costs to the patient and community are similar to current providers." [source: OHPDS analysis, p4]

In the need portion of this evaluation, the department noted that Regional's pro formas and current charity care policies indicate that its charity care percentages would be considerably less than the most recent three-year regional average. To ensure that Regional would provide at least the average charity care of the region, the department attached a condition to Regional's approval requiring it use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. Based on the condition, the department deducted the revised percentage of charity care from Regional's projected revenues. After this review, the department concludes that Regional would be able to meet its short and long term financial obligations and capital and operating costs of the project with the two-phase bed addition. This sub-criterion is met.

THC-Seattle, Inc.

For the new Kindred Hospital project, OHPDS compared the financial health of Kindred Healthcare as a whole for December 31, 2004 to the statewide year 2004 financial ratio guidelines for hospital operations. Additionally, OHPDS compared the new hospital's proposed financial ratios to the year 2004 financial ratio guidelines. Table V below provides a summary of the comparisons. [source: OHPDS analysis, p3]

Table V
Kindred Healthcare and New 50-Bed LTACH's Projected Financial Ratios

Financial Ratio	OHPDS Guideline		Kindred Healthcare Current - 2004	Year 1 2008	Year 2 2009	Year 3 2010
Long Term Debt to Equity	0.530	* Below	0.045	--------	--------	--------
Current Assets/Current Liabilities	2.067	* Above	1.513	2.481	2.569	2.722
Assets Funded by Liabilities	0.429	* Below	0.383	0.096	0.112	0.116
Total Operating Expense to Total Operating Revenue	0.969	* Below	0.959	1.054	0.951	0.908
Debt Service Coverage	4.307	* Above	9.595	0.917	3.267	4.942

* = a project is considered more feasible if the ratios are above or below the value/guideline as indicated

After reviewing the financial information Kindred Healthcare and the new 50-bed LTACH, staff from OHPDS stated the following:

" All the ratios for Kindred Healthcare and the First Hill CON are better than the State average for fiscal year end 2004 or are within appropriate range of the state 2004 figures. Kindred First Hill is projected to have 4.9% profit margin in CON Year 3, which is above average compared to Washington State hospitals. …the financial ratios for the operations in 2010, … are all better than the state 2004 figures. ." [source: OHPDS analysis, p3]

In addition to the projected ratios above, OHPDS also prepared a summary of the new hospital's Statement of Operations for years 2008 through 2010 for the new 50-bed LTACH on First Hill. [source: January 4, 2006, supplemental responses, Exhibit 2] A summary of the Statement of Operations is shown in Table VI on the following page.

Table VI
Kindred-First Hill Statement of Operations Summary
Projected Years 2008 through 2010

	Year One (2008)	Year Two (2009)	Year Three (2010)
# of Beds	50	50	50
# of Patient Days	11,124	15,873	16,493
% Occupancy	61%	87%	90%
Net Revenue*	$ 15,678,000	$ 22,941,000	$ 24,778,000
Total Expense	$ 16,517,000	$ 21,818,000	$ 22,487,000
Net Profit or (Loss)	($ 839,000)	$ 1,123,000	$ 2,291,000
Net Revenue per patient day	$ 1,409.39	$ 1,445.28	$ 1,502.33
Total Expenses per patient day	$ 1,484.81	$ 1,374.54	$ 1,363.43
Net Profit or (Loss) per patient day	($ 75.42)	$ 70.75	$ 138.91

*Includes deductions for bad debt, charity care, and contractual allowances

As noted in Table VI above, THC-Seattle anticipates the new 50-bed LTACH will operate at a loss in the first full year of operation, and a profit in the second and third full years of operation. After reviewing the Statement of Operations summary shown above for the new 50-bed LTACH, staff from OHPDS stated the following:

> *"Please note the Admissions are calculated by OHPDS by dividing patient days by the average length of stay of 25 days. Kindred First Hill rates are similar to the Washington's statewide averages. A review of the data shows no unreasonable impact on the hospital or the community. The project costs to the patient and community are similar to current providers."* [source: OHPDS analysis, p4]

In the need portion of this evaluation, the department noted that Kindred Hospital's pro formas and current charity care policies indicate that its charity care percentages would be considerably less than the most recent three-year regional average. [source: August 23, 2005, supplemental information, Appendix 15] To ensure that Kindred Hospital would provide at least the average charity care of the region, the department attached a condition to THC-Seattle's approval requiring it use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by all hospitals in the King County Region (less Harborview) during the three most recent years. Based on the condition, the department deducted the revised percentage of charity care from Kindred Hospital's projected revenues, and concluded that Kindred Hospital located at the First Hill site hospital would be able to meet its short and long term financial obligations and capital and operating costs of the project would be met. This sub-criterion is met.

(2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

To assist the department in its evaluation of this sub-criterion, OHPDS provides a summary of the reasonableness of building construction costs. Below is a summary of the OHPDS review for both projects.

Regional Hospital for Respiratory and Complex Care

As previously stated, OHPDS also compared Regional's proposed costs and charges to the year 2004 statewide average and determined that they are reasonable. [source: OHPDS analysis, p4]

Regional proposes to add the 33 beds in two phases; phase one is the addition of 8 beds, for a total of 35; and phase two is the addition of the remaining 25 beds, for a facility total of 60. [source: Application, pp3 & 8 and CN historical files]

The estimated capital expenditure for phase one of this project is $1,679,100 and phase two is estimated at $1,300,000, for a total capital expenditure $2,979,100. Of the total $2,979,100, 51% is related to constructions costs; 37% is related to equipment (both fixed and moveable); 8% is related to state sales tax; and the remaining 5% is related to permits and fees. [source: Application, p29] Table VII below shows a breakdown of the construction costs for the project.

Table VII
Regional Hospital's Capital Cost Breakdown

	Total	Phase One	Phase Two
Total Capital Expenditure	$ 10,683,481	$ 1,679,100	1,300,000
Construction costs	$ 1,772,500	$ 1,072,500	$ 700,000
Gross Square Footage	7,677	6,894	783
Total Number of Beds	33	8	25
Construction Cost per Gross Square Foot	$ 388.06	$ 243.56	$ 1,660.28
Total Expenditure Cost per Unit (bed)	$ 90,275.76	$ 209,887.50	$ 52,000.00

The applicant will adhere to the latest building codes for construction and energy conservation. After reviewing the construction costs above, staff from OHPDS concluded that the costs are within past construction costs reviewed and are appropriate. [source: OHPDS analysis, p6]

Based on the information provided above, the department concludes that the costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. This sub-criterion is met.

THC-Seattle, Inc.

As previously stated, OHPDS also compared the new 50-bed LTACH's costs and charges to the year 2004 statewide average and determined that they are reasonable. [source: OHPDS analysis, p4]

As stated in the project description portion of this evaluation, the capital expenditure for the establishment of the 50-bed LTACH at the First Hill site is $10,683,481, of which 64% is related to construction; 19% is related to equipment (both fixed and moveable); 8% is related to fees and permits; 7% is related to state sales tax; and the remaining 2% is related to land improvements and site preparation. [source: Application, p21] Table VIII on the following page shows a breakdown of the construction costs for the project.

Table VIII
Kindred First Hill's Capital Cost Breakdown

Total Capital Expenditure	$ 10,683,481
Construction costs	$ 8,510,481
Gross Square Footage	41,448
Total Number of Beds	50
Construction Cost per Gross Square Foot	$ 205.33
Total Expenditure Cost per Unit (bed)	$ 213,669.62

The applicant will adhere to the latest building codes for construction and energy conservation. After reviewing the construction costs above, staff from OHPDS concluded that the costs are within past construction costs reviewed and are appropriate. [source: OHPDS analysis, p5]

Based on the information provided above, the department concludes that the costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. This sub-criterion is met.

(3) The project can be appropriately financed.

Regional Hospital for Respiratory and Complex Care

As stated in the project description portion of this evaluation, to accommodate the 33 beds, Regional intends to lease another 7,677 square feet, for a total of 25,589 gross square feet. While no new construction is anticipated, remodel of the new space is necessary. For phase one, Regional proposes to begin remodel of the space for 8 new beds immediately after CN approval, and the 8 beds would be operational by July 2006. Remodel of phase two would begin approximately January 2008, and the remaining 25 beds would be operational by January 2009. [source: Application, pp15 &18]

The estimated capital expenditure for phase one of this project is $1,679,100 and phase two is estimated at $1,300,000, for a total capital expenditure $2,979,100. Of the total $2,979,100, 51% is related to constructions costs; 37% is related to equipment (both fixed and moveable); 8% is related to state sales tax; and the remaining 5% is related to permits and fees. [source: Application, p29]

Regional intends to fund phase one of the project from its existing reserves; phase two would be funded through a combination of leasehold improvements and reserves. To demonstrate that the funding is available, the applicant provided a copy of the current lease agreement for the space, an amended lease agreement with the additional space, and the most recent audited financial reports for years 2001 through 2004. [source: Application, Exhibit 3 and Appendix 1] The total capital expenditure for both phases represents 68% of current assets and 59% of total assets for Regional.

After reviewing the applicant's audited financial reports and current/amended lease agreements, OHPDS provided the following statements:

> *"Regional Hospital for Respiratory and Complex Care is committing a huge amount of the corporations' assets on this capital expenditure. Regional will use a combination of financing. It will use reserves for phase one and leasehold improvements and reserves for phase two. Reserves are accumulated mainly from prior year profits or debt acquisition.*

Leasehold improvement is built into the future lease costs. Since the 2004 audited balance sheet results provided by [the] hospital do not show the hospital financially able to fund the proposed project, I reviewed the pro-forma "balance sheet with project" to check hospital expectations. The pro-forma shows a very large increase in cash in 2005 from operating income. To check this, I reviewed Regional's full year 2005 Quarterly report to the Washington State Department of Health, Hospital and Patient Data Systems section which is preliminary actual results. The quarterly report shows that while Regional did not meet the income projection, they are close enough that they can fund the project with the new reserves. Review shows that the capital expenditure for this project will not adversely impact reserves, or total assets, total liability or equity of Regional. [source: OHPDS analysis, p3]

Based on the source information reviewed for Regional's project and the review performed by OHPDS above, the department concludes that the proposed financing is the most prudent approach, and would not negatively affect Regional's total assets, total liability, or general financial health. This sub-criterion is met.

THC Seattle, Inc.

As stated in the project description portion of this evaluation, this project proposes relocation of 50 LTACH beds from Kindred Hospital into First Hill Care Center. The addition of the 50 beds would be accomplished with a two-phase project. Phase one of the project received CN approval with the issuance of RAs #050 and #051 issued to Kindred Nursing Centers, LLC. Phase two is the construction and remodel of the space within First Hill Care Center that previously housed the 40 nursing home beds, and relocation of 50 acute care beds from Kindred Hospital into the newly constructed space. Phase two also requires the addition of 41,448 gross square footage and extensive remodel to First Hill Care Center to meet the appropriate licensure and code requirements for an acute care hospital. [source: Application, pp4 & 9]

The estimated capital expenditure for this project (phase two) is $10,683,481, of which 64% is related to construction; 19% is related to equipment (both fixed and moveable); 8% is related to fees and permits; 7% is related to state sales tax; and the remaining 2% is related to land improvements and site preparation. [source: Application, p21]

Kindred Healthcare, Inc., the parent company of Kindred Hospital, intends to fund the project from its existing reserves. To demonstrate that the funding is available, the applicant provided a copy of its most recent audited financial reports for years 2002 through 2004. [source: Application, Appendix 16] The capital expenditure of $10,683,481 represents 1.2% of current assets and 0.7% of total assets for Kindred Healthcare. After reviewing the applicant's audited financial reports, OHPDS concluded that the proposed financing is the most prudent approach, and would not negatively affect Kindred Healthcare Inc. or Kindred Hospital's total assets, total liability, or general financial health. [source: OHPDS analysis p2]

Based on the source information reviewed for the THC-Seattle project, the department determines that this sub-criterion is met.

D. Structure and Process (Quality) of Care (WAC 246-310-230)

Regional Hospital for Respiratory and Complex Care

Based on the source information reviewed, the department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

THC Seattle, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable structure and process of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

Regional Hospital for Respiratory and Complex Care

Regional is currently operating as a 27 bed LTACH, and as such, is currently staffed to accommodate the types of patients served. Regional currently operates with a total of 92.7 FTEs. Regional proposes to add the 33 beds in two phases. Phase one would be the addition of 8 beds, and phase two is the addition of the remaining 25 beds. Year 2007 would be Regional's first full calendar year of operation as a 35 bed facility, and year 2009 would be Regional's first full calendar year of operation as a 60 bed facility.

If this project is approved, Regional anticipates an overall increase of 55.8 FTEs through year 2011--the facility's third year of operation as a 60 bed facility. Table IX below shows the breakdown of Regional's current FTEs and the incremental increase of FTEs through year 2011. [source: Application, p18, p27, and pp37-38]

Table IX
Regional Hospital for Respiratory and Complex Care
Current FTEs and Projected Increase of FTEs

FTE	2006 Current	2007	2008	2009	2010	2011	Total
# of Beds	27	35	35	60	60	60	60
Administration	13.2	2.8	0.0	2.1	1.1	0.2	19.4
Patient Care	76.6	11.8	7.8	16.1	6.1	5.7	124.1
All Others Total[8]	2.9	0.7	0.0	1.0	0.0	0.4	5
Total FTE's	**92.7**	**15.3**	**7.8**	**19.2**	**7.2**	**6.3**	**148.5**

As shown in Table IX above, Regional expects to recruit approximately 15.3 additional FTEs to accommodate the additional patients for the 8 beds in phase one. In year 2009, as a 60 bed facility, Regional anticipates another increase of FTEs. By the end of Regional's third year of operation as a 60 bed facility, Regional expects to be operating the 60-bed LTACH with 148.5 FTEs.

Regional states it has experienced the impact of national and regional staff shortages, as a result, many of its increases in staff shown above relates to expanded hours for part-time FTEs. Much of Regional's experience with staff shortages is with registered nurses; of the total 55.8 additional FTEs, 22.0 are registered nurses. To assist in its recruitment and retention of registered nurses,

[8] All others include nurse educator, quality specialists, and would care specialists.

Regional emphasizes the opportunity for a critical care nurse to use his/her skills in a less stressful environment of an LTACH. Other strategies to recruit and retain LTACH staff include:

- offer an environment where staff can make a difference, use professional skills, and grow;
- redesign jobs to allow less physical demand (i.e. mechanical lifting, etc);
- work with local educational institutions to train new professionals; and
- offer competitive wage and benefit packages.

[source: Application, pp39-40]

Based on the information provided in the application, the department concludes that Regional provided a comprehensive approach to recruit and retain staff necessary for the additional 33 beds. As a result, the department concludes that qualified staff can be recruited and retained. This sub-criterion is met.

THC Seattle, Inc.

THC-Seattle is not proposing to add licensed bed capacity, rather, it would relocate 50 of its currently 80 licensed LTACH beds to a new location. For years 2000 through 2003, Kindred Hospital remained licensed for 80 beds, however, 49 beds were set up and operational in year 2000, and in years 2001-2003, Kindred Hospital had 42 beds set up and operational.[9] Given that Kindred Hospital has not historically had all 80 beds set up and operational, it too would need to increase FTEs to accommodate the 50 beds at the new site.

If this project is approved, THC-Seattle anticipates recruiting a total of 168.7 FTEs by the end of year 2010—the facility's third year of operational as a 50 bed LTACH. Table X below shows the breakdown of Kindred Hospital's projected FTEs for the 50 beds at the First Hill Care Center site through year 2010. [source: December 15, 2005, supplemental information, Appendix 7]

Table X
Kindred Hospital's Projected FTEs

FTE	Year 2007	Increase 2008	Increase 2009	Increase 2010	Total FTEs
# of Set up Beds	42	50	50	50	50
Administration	30.1	12.6	11.6	3.0	57.3
Patient Care	32.1	27.7	26.1	5.8	91.7
All Others Total[10]	8.8	4.5	5.3	1.1	19.7
Total FTE's	**71.0**	**44.8**	**43.0**	**9.9**	**168.7**

As shown in Table X above, Kindred Hospital expects to staff the 50-bed LTACH with 71.0 FTES in year 2007, and increase the FTEs based on patient census.

The applicant states it has also experienced the impact of national and regional staff shortages, as a result, many of its increases in staff shown above relate to expanded hours for part-time FTEs. THC-Seattle expects the recruiting of staff for this location to be less difficult due to its proximity of other hospitals. Further, since many clinical staff in the Seattle area work at more than one hospital,

[9] In year 2004, Kindred Hospital decreased its set up and operational beds from 42 to 35 because of a construction/remodel project at the hospital.
[10] All others include therapists, contract and per diem staff.

Kindred Hospital would be another choice of employment. [source: September 23, 2005, supplemental information, p10]

Within the application, the applicant provided its process to be used to recruit staff for the 50-bed LTACH. Kindred Hospital expects to begin recruiting administrative staff 6-9 months prior to opening. Clinical staff recruitment would begin 3-4 months prior to opening. Both local and national recruitment is anticipated. Further, within the application, THC-Seattle provided a process to be used if all of the staff needed for the 50-bed LTACH could not be recruited before opening. Specifically, the current administration team located at the 5th Avenue site would provide services at the new First Hill site. Kindred Hospital would also consider working with a staffing agency and travelers to provide the necessary staffing for the facility. [source: September 23, 2005, supplemental information, p11]

Based on the information provided in the application, the department concludes that TCH-Seattle provided a comprehensive approach to recruit and retain staff necessary for the new 50-bed LTACH. As a result, the department concludes that qualified staff for Kindred Hospital can be recruited and retained. This sub-criterion is met.

(2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

Regional Hospital for Respiratory and Complex Care

As an established provider of LTACH services in Washington State, Regional has already established ancillary and support services. In response to this sub-criterion, the applicant states that the addition of 33 beds at the facility will not require any expansion of existing ancillary or support services, nor will it require the establishment of any new ancillary or support services. [source: Application, p40; December 12, 2005, supplemental information, p11]

Based on the above information provided in the application, the department concludes that Regional Hospital for Respiratory and Complex Care will have appropriate relationships with ancillary and support services as a 60 bed facility. This sub-criterion is met.

THC Seattle, Inc.

Kindred Hospital currently has established relationships, including ancillary and support services, as existing provider of LTACH services at its 5th Avenue site. In response to this sub-criterion, the applicant states that the new 50-bed LTACH will employ the same protocols and establishment arrangements with existing providers at the new First Hill site. Further, while no new agreements are anticipated, the addition of a new 50-bed LTACH at a new site will require expansion of some existing ancillary and support services agreements. THC-Seattle provided a listing of the providers with whom Kindred Hospital has current ancillary and support agreements. [source: Application, p28; September 23, 2005, supplemental information, p11]

Based on the above information provided in the application, the department concludes that Kindred Hospital will have appropriate relationships with ancillary and support services at the new site as a 50-bed LTACH. This sub-criterion is met.

(3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

Regional Hospital for Respiratory and Complex Care

As stated in the project description portion of this evaluation, Regional Hospital for Respiratory and Complex Care is a non-profit LTACH located in the city of Tukwila, within King County. Regional is licensed by the Department of Health's Office of Health Care Survey as an acute care hospital and reimbursed by both Medicare and Medicaid. Regional is also fully accredited by the Joint Commission on the Accreditation of Health Care Organizations [source: Application, p3 and CN historical files]

As part of its review, the department must conclude that healthcare services provided by Regional would be provided in a manner that ensures safe and adequate care to the public[11]. To accomplish this task, the department reviews the quality of care compliance history for all healthcare facilities owned, operated, or managed by Regional. Regional does not own or operate any other healthcare facilities in Washington or any other state. Since year 2000, the Department of Health's Office of Health Care Survey (OHCS), which surveys hospitals within Washington State, has completed two compliance surveys for the hospital.[12] The surveys revealed minor non-compliance issues typical of the hospital, and Regional submitted and implemented plans of correction for the non-compliance issues within the allowable response time. [source: compliance survey data provided by Office of Health Care Survey]

Based on Regional's compliance history, the department concludes that there is reasonable assurance that the hospital would continue to operate in conformance with state and federal regulations with the addition of 33 LTACH beds. This sub-criterion is met.

THC-Seattle, Inc.

As stated in the project description portion of this evaluation, THC-Seattle, Inc. is a Washington State, for-profit corporation whose primary business is owning, operating, or managing healthcare facilities throughout the United States. The majority of THC-Seattle's healthcare facilities, including those in Washington State, operate under the dba of "Kindred Healthcare, Inc." As of the writing of this evaluation, Kindred Healthcare, Inc. or THC-Seattle own, operate, or manage a total of 323 healthcare facilities in 37 states including Washington. [source: Application, p1 & Appendix 2]

To evaluate the compliance history of THC-Seattle and Kindred Healthcare, Inc., the department contacted the licensing entities for all 323 healthcare facilities in 37 states.[13] Of the 37 states, 22 states responded, representing 54% of the healthcare facilities.[14] Of the states that responded, two states--Indiana and Wisconsin--indicated substantial non-compliance issues at one or more

[11] WAC 246-310-230(5)
[12] Surveys conducted in 2002 and 2005.
[13] States include Alabama, Arizona, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin, and Wyoming.
[14] States that did NOT respond: Alabama, California, Colorado, Georgia, Idaho, Louisiana, Maine, Massachusetts, Montana, New Mexico, Oregon, Rhode Island, Tennessee, Tennessee, Texas, and Utah.

healthcare facility operated under Kindred Healthcare. For those two facilities, the state surveying entity has issued several severity tags.

States determine whether to refer a nursing home to CMS for possible sanction on the basis of CMS's scope and severity grid, which classifies nursing home deficiencies by their scope [the number of residents potentially or actually affected] and severity [the potential for more than minimal harm, actual harm, or actual or potential for death or serious injury (immediate jeopardy)]. This grid places the deficiency in one of 12 categories, labeled "A through "L." The most serious category (L) is for widespread deficiency that causes actual or potential for death or serious injury to residents; the least serious category (A) is for an isolated deficiency that resulted in no actual harm and has potential only for minimal harm. Nursing homes with deficiencies that do not exceed the "C" level are considered in "substantial compliance" and, as such, to be providing an acceptable level of care. [source: June 1999; GAO Report to the Special Committee on Aging, US Senate, Proposal to Enhance Oversight of Poorly Performing Homes Has Merit; p3]

Below is a summary of the survey data provided by the surveying entities in Indiana and Wisconsin related to the deficiencies for the facilities operated by Kindred Healthcare, Inc. in those states.

Information submitted by two of the 22 states (Indiana and Wisconsin) indicate some significant non-compliance issues related to staffing levels and sub-standard patient care. Specifically, Indiana has 31 facilities owned or operated by Kindred Healthcare. Of the 31, 9—or 29%--had substantial non-compliance issues resulting in 11-H tags; 11-K tags; 2-J tags; and 1-L-tag. According to information provided by the surveying entity in Indiana, the majority of the substantial issues occurred in years 2000 and 2001. Kindred Healthcare has taken significant steps to improve its quality of care at its Indiana facilities, resulting in a total of only two K-tags in year 2005. [source: February 6, 2006, qualify of care survey data provided by the state of Indiana]

On July 9, 2004, Kindred Healthcare and the Wisconsin State Department of Health and Family Services entered into a 3-year stipulation related to quality of care at four of its total of 13 facilities owned or operated by Kindred Healthcare. The stipulation requires Kindred Healthcare to adopt a special Quality Improvement Plan for all of its Wisconsin facilities. Further, Kindred Healthcare is required to engage in quarterly performance improvement calls with representatives from Wisconsin's Department of Health and Family Services. According to information provided by the state of Wisconsin, Kindred Healthcare has been satisfactorily meeting the terms of the agreement. [source: January 12, 2006, Quality of Care survey data provided by state of Wisconsin]

For the remaining 20 states that responded to the department's quality of care survey, all indicated no significant non-compliance issues. For Washington State, Kindred, Healthcare, Inc operates 11 healthcare facilities, which includes one hospital located in King County, and 10 nursing homes located in the counties of Clark (2), Cowlitz (1), King (3), Pierce (2), Snohomish (1), and Whatcom (1). The 11 facilities are listed below. [source: Application, Appendix 2 and CN historical files]

In the most recent three years, there were no significant non-compliance issues at any of the 10 nursing homes. Further, when the nursing home staffing data is compared to the Washington State and the national averages, many of the staffing comparisons are within an acceptable range. [source: compliance survey data provided by DSHS and NH Compare prepared by Medicare]

Since year 2000, the Department of Health's Office of Health Care Survey has completed three compliance surveys for Kindred Hospital.[15] All three surveys revealed acceptable standards related to quality of care, resident assessment, resident rights, nutrition and dietary, pharmacy, and environmental issues.

In summary, while Indiana and Wisconsin appear to be experiencing substandard quality of care and staffing issues, the Washington State facilities appear to be operating substantially in compliance. Given the information provided by representatives in Indiana and Wisconsin, the department would conclude that Kindred Healthcare has taken significant steps to substantially improve its quality of care issues. Further, information provided by the Washington State surveying entities regarding quality of care indicate that approval of this project would not negatively affect Kindred Hospital's quality of care.

Based on the above information and information provided in the application, the department concludes that Kindred Healthcare, Inc. and THC-Seattle, would continue to operate the existing Kindred Hospital and the new 50-bed Kindred Hospital in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

Regional Hospital for Respiratory and Complex Care

In addition to the ancillary and support services in the previous sub-section, Regional provided documentation to demonstrate extensive relationships with existing providers, including area nursing homes, home health, and hospice programs. When appropriate for the patient, Regional also works with community based programs for post discharge patient care. [source: Application, pp40-41]

Based on the above information, the department concludes that Regional demonstrated current continuity in the provision of health care at the 27-bed LTACH, and approval of an additional 33 beds would not result in an unwarranted fragmentation of services within the existing health care system. Therefore, this sub-criterion is met.

THC Seattle, Inc.

In addition to the ancillary and support services in the previous sub-section, Kindred Hospital has current agreements with local hospitals, nursing homes, and community based providers. The applicant states that one of the primary goals of this project is to increase the continuity of care for patients by improving the geographic access to long term acute care services. Further, the applicant provided a detailed description of the discharge planning process used at Kindred Hospital for all patients. [source: Application, pp28-29]

Based on the above information, the department concludes that THC-Seattle has demonstrated current continuity in the provision of health care at Kindred Hospital, and approval of this project would not result in an unwarranted fragmentation of services within the existing health care system. Therefore, this sub-criterion is met.

[15] Surveys completed in years 2001, 2002, and 2003.

(5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*

For both applicants, this sub-criterion is addressed in sub-section (3) above. This sub-criterion is met.

E. Cost Containment (WAC 246-310-240)

Regional Hospital for Respiratory and Complex Care

Based on the source information reviewed, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

THC Seattle, Inc.

Based on the source information reviewed, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

(1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

Regional Hospital for Respiratory and Complex Care

Before submitting this application, the applicant considered two alternatives: do nothing or expand in a satellite location. Regional quickly dismissed the do nothing (or status quo) alternative because of its current high occupancy, patient waiting list, and encouragement from referral hospitals to increase its number of available long term acute care beds. The second option—expand in a satellite location—was considered to be the preferred alternative. Regional began a search for a site in the southern portion of the Puget Sound region, however, Regional was unable to locate a site. As a result, Regional chose the option of expanding the number of long term acute care beds at the current location. [source: Application, 44]

In the need section of this evaluation, the department concurred with Regional's position regarding need for additional beds in the southwest King planning area. Further, in the financial feasibility section of this evaluation, the department concluded that the applicant's long-term capital and operating costs of this project could be met.

Based on the information provided above, the department concludes that this project is the best alternative, and this sub-criterion is met.

THC Seattle, Inc.

In response to this sub-criterion, the applicant considered only the alternative of do nothing before submitting this application. THC-Seattle asserts that many of the physicians who treat potential long-term acute care patients are located within the area of the First Hill medical campus, which is seven miles from the current Kindred Hospital location on 5th Avenue. THC-Seattle believes that the location of long-term acute care beds closer to the physician practices will enable physicians to follow their patient's progress and monitor their course of treatment. [source: Application, p31]

While physician convenience is not a criterion that is evaluated when considering a project, patient access to services is a criterion. During the course of reviewing the applications submitted on behalf of Regional and Kindred, the department received many letters of support from area hospitals and

physicians.[16] [source: public comment received throughout the review of the applications] The letters of support provide the rationale for the addition of long-term acute care beds in the community and locating the beds closer to the facilities that refer to the LTACH.

In the need section of this evaluation, the department concurred with THC-Seattle's position regarding need for additional beds in the central King planning area. Further, in the financial feasibility section of this evaluation, the department concluded that the applicant's long-term capital and operating costs of this project could be met.

Based on the information provided above, the department concludes that this project is the best alternative, and this sub-criterion is met.

[16] Letters of support received from Swedish Medical Center, MultiCare Health System, Franciscan Health System (representing three hospitals), Valley Medical Center, Highline Medical Center, and physicians associated with the Yakima Heart Center.